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Review of Timor-Leste's National Accounts 2000-2013

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The National Accounts[*] show that in 2013 Timor-Leste's non-oil economy grew by 2.8% in real terms[1]. This growth rate has been derived from the expenditure approach as the quality of price data used in this approach is superior to that used in the production approach.

Non-oil GDP growth of 2.8% is below the high growth trend seen in recent years. However, a more detailed analysis of the National Accounts through the expenditure approach shows that although non-oil GDP growth has been low it has been of a high quality. The expenditure approach shows that the below trend growth in 2013 was largely driven by a 16.4% decrease in public sector expenditure[2], which was the result of the phasing down of expenditure on the electricity project. Meanwhile, the National Accounts show strong performances in the remaining components of non-oil GDP in 2013. Household FCE growth of 7.3% shows that living standards continued to increase strongly. The 16.5% growth in private corporation GFCF suggests that in line with the SDP strong progress is being made in terms of private sector development. Finally, Timor-Leste's non-oil trade deficit fell by 33.5% suggesting that the country is becoming less dependent on imports.

The slowdown in public sector expenditure and strong increases in household FCE and private corporation GFCF are consistent with the Government's policies as outlined in the SDP. The SDP argues that economic growth will at first be driven by the public sector, but that in the second stage of development the private sector will take over and drive economic growth. The National Accounts show that Timor-Leste is now moving to the second stage of development with economic growth being driven more by the private sector and not by the public sector in 2013. In addition, the increase in household FCE is consistent with the SDP's focus on improving living standards in Timor-Leste.

The publication of Timor-Leste's National Accounts 2000-2013 represents a continuation of the progress made by the GDS since the publication of the National Accounts 2004-2010 in May 2012. The GDS will continue to improve the quality of the National Accounts by improving the quality of the framework, adding new surveys (such as the 2014 TLSLS) and improving existing surveys. These improvements will likely lead to revisions to the 2000-2013 estimates in later versions of the National Accounts.

Evaluating Timor-Leste's Economic Performance

GDP estimates are commonly used to measure the overall economic performance of an entire country over a period of time. The Timorese economy is dominated by the oil sector, which produced 73.1% of total GDP in 2013. This dominance reduces the effectiveness of total GDP as a measure for overall economic performance as total GDP growth rises and falls with the oil sector's volatile production levels. In addition, this sector employs relatively few Timorese workers and therefore total GDP growth is not closely related to improvements in the standard of living in Timor-Leste. In Timor-Leste the National Accounts measure non-oil GDP to overcome these issues.

[*] The National Accounts report had not been released when this memo was distributed, but it is now available at http://www.laohamutuk.org/DVD/DGS/NatlAccts2013Jun2015en.pdf

[1] All figures in this briefing note are in real-terms

[2] General Government (excluding DP & TA) FCE and GFCF

However, non-oil GDP is itself a narrow measure of economic performance in Timor-Leste. A country's economic performance should not be based solely on its growth rate; a comprehensive approach which considers changes in components of non-oil GDP (such as household FCE and private corporation GFCF) and other macroeconomic indicators is required. This briefing note will provide a more comprehensive evaluation of the National Accounts by analyzing numerous indicators.

Analysis

The National Accounts show that the non-oil economy in Timor-Leste grew by 2.8% from $1,088m in 2012 to $1,118m in 2013. Despite the basic data sources in the production and expenditure approaches being of the same quality, the expenditure approach has been chosen as the headline figure over the production approach as it makes use of higher quality price data sets in order to obtain real term figures.

Expenditure Approach Analysis

In 2013 non-oil GDP growth was below the high growth trend seen in recent years, this was largely due to the 16.4% decrease in public sector expenditure[3]. The fall in public sector expenditure was the result of the 40.2% fall in public sector GFCF associated with the phasing down of the Government's electricity project. Lower capital expenditure on electricity was to be expected as the Government successfully completed the Hera and Betano powers stations and significant increased electricity generation capacity. It is common for growth rates in economies to fall below their recent trend in the year after the completion of large scale infrastructure projects. Excluding electricity project expenditure, non-oil GDP would have grown by 7.0% in 2013. The underlying trend economic growth rate in Timor-Leste therefore continues to be high.

In contrast to public sector expenditure in 2013, the year saw strong growth of 7.3% in household FCE. This increase suggests that living standards in Timor-Leste improved in 2013 as household FCE is closely related to living standards.

There was also a significant increase of 16.5% in private corporation investment in 2013. This suggests that the private sector is responding to the Government's frontloading policy, which involved heavily investing in infrastructure and human capital with the aim of spurring the development of the private sector.

The National Accounts also show a significant improvement in Timor-Leste's non-oil trade balance[4]. In 2013 Timor-Leste's non-oil trade deficit fell by 33.5% from $1,256m to $836m. Though this has been partially caused by the decrease in public sector capital expenditure, which has a significant import content, the reduction in the trade deficit suggests that Timor-Leste is becoming less dependent on the imports of goods and services.

The slowdown in public sector expenditure and strong increases in household FCE and private corporation GFCF are consistent with the Government's policies as outlined in the SDP. The SDP outlined that in the initial stage of development public sector spending would drive economic growth, but in the next stage of development the private sector would take over and drive economic growth. The National Accounts demonstrate that Timor-Leste has now successful moved to this second stage of development. Economic growth in 2013 was driven more by the private sector (more specifically a 16.5% increase in private corporation GFCF) and not by the public sector (indeed there was actually a 16.4% fall in public sector expenditure). Meanwhile, the 7.3% increase in household FCE is consistent with the SDP's focus on improving living standards in Timor-Leste as growth in consumption is closely correlated with increases in living standards.

[3] General Government (excluding DP & TA) FCE and GFCF

[4] Non-oil exports — non-oil imports

Production Approach Analysis

The performance across the major sectors of the Timorese economy has been mixed in 2014. Growth in the construction sector remains closely related to Government GFCF and the low levels of Government GFCF in 2013 lead to a 8.5% contraction in construction sector output. Meanwhile, the strong 10.7% growth seen in the public administration sector is the result of the increase in public sector recurrent expenditure[5] in 2013.

Output in the agricultural sector grew by 0.3% to $190m in 2013. Despite improvement in yields, agricultural output has remained in the $189 - $196m range[6] since 2009. This suggests that the gains from improved yields are largely being canceled out by decreases in the total cultivated area. Finally, the wholesale and retail trade sector[7], Timor-Leste's fourth major sector, contracted by 3.4% in 2013.

Improvements to the National Accounts

The publication of Timor-Leste's National Accounts represents a continuation of the progress made by the GDS since the publication of the National Accounts 2004-2010 in May 2012. The GDS will continue to improve the quality of the National Accounts by upgrading the framework, adding new surveys and improving existing surveys.

The GDS has ambitious plans to improve the quality of the National Accounts and these improvements will likely lead to revisions to the estimates in the 2000-2013 National Accounts. Key upcoming improvements to the National Accounts include the inclusion of data from the 2014 TLSLS, the re-development of the BAS frame and the incorporation of supply-use tables into the framework.

In addition the GDS intends to begin to release Quarterly National Accounts publications starting in 2018. These publications will complement the NDEP's Quarterly Economic Activity Index publications and help provide policy makers with a more up to date understanding of Timor-Leste's economy.

Concluding Remarks

The publication of Timor-Leste's National Accounts represents a continuation of the progress made by the GDS in recent years. As the National Accounts improve so to must the economic analysis and there should now be a move towards a more comprehensive evaluation of economic performance which looks beyond headline figures such as total GDP and non-oil GDP.

A comprehensive evaluation of the National Accounts shows that despite the below trend non-oil GDP growth of 2.8% the Timorese economy performed well in 2013. The below trend non-oil GDP growth was largely driven by the fall in public sector expenditure associated with the phasing down of the electricity project. This type of economic slowdown from the phasing down of large-scale infrastructure projects is common in small developing economies and was to be expected. The National Accounts show strong performances in the other major components of non-oil GDP; household FCE, private corporation GFCF and the non-oil trade balance.

The slowdown in public sector expenditure and increase in private corporation GFCF are consistent with the Government's frontloading policy in which investments in infrastructure and human capital were undertaken to stimulate private sector development. Meanwhile, the strong increase in household FCE is consistent with the SDP's focus on improving living standards in Timor-Leste. Thus, a comprehensive analysis of the National Accounts shows that economic performance in 2013 is consistent with the Government's policies as outlined in the SDP.

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[5] Compensations to Employees and Fixed Capital Consumption

[6] Excluding the poor harvest in 2011

[7] Includes transportation, storage, accommodation and food storage